

Improving Performance (Abridged Version)

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Introduction

The traditional view of organizations is flawed because too many managers do not understand how their business products get produced and traditional organizational charts do not show the customers, products and services, and work flow. Goals are established functionally, and functional areas see each other as enemies rather than as partners. Silos, or thick walls, are built around functional departments that prevent interdepartmental issues from being resolved at lower levels. Therefore, managers are forced to resolve lower-level issues. This functional optimization often results in suboptimization of the organization as a whole.

A systems (horizontal) view of an organization addresses the ingredients missing from traditional organization charts: customers, products, flow of work, and internal customer-supplier relationships through which products and services are produced. The greatest opportunities for performance improvement often lie in the functional interfaces--the hand off points from one unit to the next.

Fundamental Laws of Organizations.

- Understanding performance requires understanding what an organization does and how it does it.
- Organizations adapt or die--speed is becoming critical to survival.
- Optimization of one organizational component results in suboptimization of the overall organization.
- Adjusting one part of the system will affect all other parts.
- An organization behaves as a system, regardless of whether it is being managed as a system.
- If a good performer is in a bad system, the system will usually win.

Three Levels of Performance Improvement

The overall performance of an organization (how well it meets the expectations of its customer) is the result of goals, design (structures) and management actions at three levels: organization, process and job performer.

By focusing on the three levels of performance, managers are better able to:

- Implement lasting change--it takes hold at all levels.
- Diagnose and eliminate deficient performance.
- Continuously improving systems that are performing adequately.

Organizational Level

Organization Goals: At the organization level, goals are strategic and identify the organization's products and services, customer groups, competitive advantage, and priorities. Goals address the values of the organization, customer requirements, financial/nonfinancial expectations, and performance targets. Goals should be quantifiable, clear to all who have to understand and be guided by them, and relevant to the organization's external and internal environment.

Organization Design: Design is how work is organized, gets done, flows from one function to another, and the extent to which functional relationships support the organization's strategy.

Organization Management: Organization management includes ensuring functional goals are set to reflect the function's contribution to the entire organization (goal management), resources are allocated so that the goals can be achieved (resource management), performance information is collected, shared with relevant activities and appropriate corrective actions are taken (performance management), and infrastructures are established to support cross-functional collaboration (interface management).

Managing organizational performance requires acknowledging the different viewpoints of:

- ▶ customers (why can't they meet my needs)
- ▶ suppliers (why can't they make up their minds on what they need)
- ▶ employees (why do we make commitments that are impossible to meet)
- ▶ shareholders (why don't organization changes improve performance)

If executives do not manage performance at the organization level, the best they can expect is modest performance improvement, and the worst, efforts at other levels will be counterproductive.

Process Level

A process is a series of steps designed to produce a product or service. A process can be seen as a value chain, each step in a process should add value to the preceding steps and contribute to the creation or delivery of a product or service. Primary processes produce products and services for external customers. Support processes produce products that are invisible to external customers, but are essential to effective management of the business. Management processes are actions managers should take to support these two types of business processes.

Organizations can drive decision making down in the organization and empower teams to solve problems. However, even talented and motivated people can improve organization performance only as much as the business processes allow. Reorganizations, automation, and training are ineffective in improving performance if the processes by which the work gets done are basically flawed.

Organizations have two choices:

- **ignore processes and hope they meet expectations, or**
- **understand and manage them.**

Processes offer the greatest opportunity for substantive change/improvement and is the most frequently overlooked level of organizational performance.

Process Goals: Process goals should focus on the processes that are most critical to the organization's strategy and describe the performance required of those processes. These goals should be derived from the organization goals and should be linked to customer requirements. Process goals drive functional goals, which should describe functional contributions to process goals.

Process Design: Process design is best depicted through process maps. Process maps display the way work gets done, the sequence of steps to convert inputs to outputs, and the disconnects in current processes.

Process Management: If processes are to be managed on an ongoing basis (and not just fixed when they break), then managers must establish an infrastructure, which many organizations are beginning to call process management. The allocation of resources is an important part of the process management infrastructure. Process focused resources tend to be different from the usual function-oriented approach. Process-driven resource allocation is based on the dollars and people required for the process to achieve its goals. After that is done, each function is allocated its share of the resources, according to its contribution to the process. A functional budget should be the sum total of its portion of each process budget.

Job/Performer Level

Eighty percent of performance improvement opportunities reside in the work environment. Usually, 15 to 20 percent of performance problems are opportunities in skill and knowledge development areas, and fewer than 1 percent result from individual capacity deficiencies. This is consistent with the findings of Deming that only 15 percent of performance problems are worker problems and 85 percent are management problems.

Job Goals: Job goals should define the outputs and output expectations for those

jobs that are critical to the success of the process. Job goals should be linked to functional goals and derived from process goals.

Job Design: Job design determines the effectiveness and efficiency with which individual performers can carry out their responsibilities. Job design includes the allocation of responsibilities among jobs, sequence of job activities, job policies and procedures, ergonomics (physical design of work environment).

Job Management: The purpose of job management is to put capable people in an environment that supports their accomplishment of goals. Factors required for a supportive environment include the following.

- ▶ *Performance specifications.* Employees and managers should discuss and agree upon the outputs employees are to produce and the standards those outputs must meet.
- ▶ *Task support.* Job performers should have sufficient resources, clear priorities, and logical job responsibilities. Jobs should be structured to have clear inputs, and minimal interference among tasks.
- ▶ *Consequences.* Performers should be rewarded for achieving job goals. Additionally, managers should eliminate any negative consequences for achieving desired responses.
- ▶ *Feedback.* Performers must be made explicitly aware of when they are and are not meeting job goals. Feedback mechanisms should provide regular, frequent and specific performance information to people.
- ▶ *Skills and knowledge.* Performers need to have the necessary skills and knowledge to achieve job goals.
- ▶ *Individual capacity.* Job performers should have the physical, mental and emotional capacity to achieve job goals. Managers have three choices if there is not a fit between the performer and the job:
 - change the job to fit the person,
 - develop the person to fit the job, or
 - remove the person from the job.

The quality of outputs is a function of the quality of inputs, performers, consequences and feedback. Organization and process improvements will not take root if they are not built into jobs.

Process Management

Process management is ensuring that individual core processes are continuously improved. While nonexecutive personnel often map and improve processes, process management is the responsibility of top management. Top management needs to:

- Understand both process improvement and process management.
- Develop a process improvement and management plan.
- Provide the communication, measures, resources, skills, rewards and feedback necessary to reinforce process management
- Establish the infrastructure, such as:
 - Selecting the core processes that have the greatest impact on the strategic success of the organization and warrant the investment in process management.
 - Developing and installing a process-based measurement system which is linked to both organizational and job performer measures. *(This is the single most important action top management can take.)*
 - Appointing process owners for cross-functional processes.

Process Owners. Process owners are responsible for continuously monitoring and improving assigned processes, and ensuring that both interface problems are resolved and process considerations dominate functional interests. Process owners do not represent a second organization structure. Reporting relationships remain vertical, the functional managers retain their power. Process owners should:

- Hold a senior management position with major equity in the assigned process.
- Have a broad environmental and business perspective.
- Have the ability to influence decisions and people outside their normal line of authority.

Institutionalizing Process Management

To institutionalize process management, each key process should have:

- a map that documents the process
- a set of customer-driven measures
- a process owner
- a permanent process team
- an annual business plan
- mechanisms for ongoing monitoring of process performance
- procedures for solving process problems/capitalizing on opportunities.

Senior management must make process management a part of the organization's culture by:

- Practicing continuous process improvement, rather than sporadic problem solving.
- Using maps to plan and implement changes and improvements.
- Basing goals and decisions on the needs of internal/external customers.
- Asking and receiving answers to questions about the effectiveness and efficiency of processes that rely on a process-based measurement system.

- Allocating resources based on process requirements.
- Serving as process owners for intra functional processes.
- Enhancing cross-functional team work.
- Reinforcing effective management of people processes.

Managing vertical and horizontal organizations

In most process based organizations, functions remain as "centers of excellence" (expertise). Organizing around process is neither practical nor completely effective—it merely creates a different kind of white space between processes. The only difference between a traditional (purely vertical) organization and an organization that focuses on process management is that each function is measured against goals that reflect its contribution to process. Process management can coexist quite peacefully with the functional organization because it:

- Doesn't change the direction of the business.
- Doesn't change the organization structure or reporting relationships
- Ensures that functional goals are aligned with process goals.
- Doesn't change accountability or power.
- Only changes business operations by ensuring that processes are rational.

Planning Process Improvement Projects

There are five steps to planning process improvement projects.

- Identify which core processes are most critical to improve to achieve organizational goals.
- Define the project and supporting project management structure.
 - Select participants (steering committee, process team, facilitator).
 - Establish project improvement goals.
 - Define project boundaries, assumptions and constraints.
 - Describe the process's relationship with other processes.
 - Set project time line and time constraints.
- Analyze and redesign the process.
 - Map the current process.
 - Identify process performance impediments and root causes.
 - Develop proposed process map.
 - Develop end-of-process and upstream measures.
 - Submit recommendations and cost-benefit to steering committee.
 - Develop implementation plan.
- Implement process improvements.
 - Assess impact of and organizational readiness for the changes.
 - Establish implementation infrastructure (training, communications)
 - Develop and obtain approval of detailed implementation plans.
 - Implement.
- Practice process management to continuously improve process.

Measuring Performance

The primary tool for communicating direction, establishing accountability, defining roles, allocating resources, and monitoring performance is measurement.

Requirements for effective management of organization system

- Sound measures to monitor the right things.
- A total, integrated measurement system.
- A process that converts measurement data into intelligent action.

Developing sound measures

Measures should be output-driven, customer-focused and multidimensional. The sequence for developing measures is as follows.

1. Identify the most significant outputs of the organization, process, or job.
2. Identify the "critical dimensions" of performance for each output.
Quality (accuracy, ease of use, novelty, reliability, appearance).
Productivity (quantity, rate, and timeliness).
Costs (labor, materials and overhead).
3. Develop the measures for each critical dimension (e.g., a measure for accuracy may be the rate of correct actions).
4. Develop goals, or standards for each measure (e.g., 100% of actions are expected to be correct).

Developing measures for each level of performance

Organization. Measurements start at the organizational level with the identification of critical goals and outputs. They:

- Are based on documented customer and business requirements.
- Are universally understood within the organization.
- Reflect the organization-wide performance to which all subsystems should contribute.

Process. Process measures are established for processes critical to achieving organization level goals. They:

- Describe end-of-process performance by relating to customer requirements.
- Reflect organization business requirements ("profitable within one year").
- Describe output requirements of critical steps within the process.

Process goals and measures are drivers of functional performance. Therefore, **functional measures** must reflect:

- Function's contribution to overall process and organizational goals
- Function's contribution to other functions so that they can make their contributions to process and organizational performance.

Job Performer. At the job performer level, outputs are the accomplishments of individuals who contribute to a function or process output. A performance management system consists of three components at the job performer level:

- Outputs and performance expectations are defined for each job.
- Job holders are able to monitor their own performance on an ongoing basis, and if off target, to diagnose the situation and take corrective action.
- Job holders and managers periodically review performance with a focus on performance trends rather than individual instances.

Using Measurement Information

Managers and performers should use performance data to identify process problems and the cause of those problems (which will usually be a system problem).

Unfortunately, too often performance data is used to lay blame rather than to diagnose and take corrective action.

Consequences of inadequate measurement systems.

Without measurement:

- Performance is not being managed.
- One cannot specifically identify, describe, and set priorities.
- People cannot fully understand what is expected of them.
- People cannot be sure if performance is on or off track.
- There cannot be an objective, equitable basis for rewards or punishments.
- There are no triggers for performance improvement actions.
- Management is a set of uneducated guesses.
- There is no foundation for managing by process.

Designing an organizational structure that works.

The objective of a reorganization is to improve the performance of the organization. However, organizational performance is the function of the effectiveness of the cross-functional processes. Therefore, reorganization efforts should:

- Analyze and redesign critical cross-functional processes to meet customer requirements and goals.
- Redraw the organization boundaries to support the effectiveness and efficiency of the horizontal system.

Steps:

1. Establish a clear strategy, clear direction so the organization can be designed to facilitate the achievement of its strategy.
2. Document and analyze the current *organization* to identify disconnects (missing, redundant, or illogical connections).
3. Document and analyze current primary, support and management *processes* that have the greatest impact on organizational goals and strategy.
4. Develop process improvement recommendations to remove disconnects and establish a set of process measures.
5. Design the organization chart based on the most logical departmental groupings and reporting relationships. The goal is to draw organization boundaries that maximize process effectiveness and efficiency.
6. Define each function of the organization in terms of outputs and goals. Ensure that all process outputs and measures are reflected in functional responsibilities.
7. Identify outputs and goals for each job.
8. Create a system that supports effective human performance management by focusing on clear expectations (for outputs/measures and inputs), rewards, and ensuring the right people are put in jobs and receive appropriate training.
9. Establish management processes (goal setting, performance management, resource allocation, interface management and performance tracking/measurement management).

Restructuring Goals

- Minimum number of interfaces.
- Maximum proximity of internal customers/suppliers.
- Optimum span of control.
- Minimum number of layers of management.
- Maximum clarity (few overlapping or fuzzy responsibilities).

Criteria for selecting the right structure.

- Maximize product and service quality.
- Maximize responsiveness to customer needs (flexibility and timeliness).
- Maximize efficiency (reduce rework and costs).

Organizational design guidelines

- Organization design is less important than most think. Processes have a greater impact on organizational performance.
- There is no right organization structure in all situations—structures should be evaluated against desired strategy and the above criteria.
- All organization structures have white space. The mission is not to eliminate white space, but to manage the white space that does exist and minimize the extent to which it impedes processes.
- Organizing by process is not any better than organizing in some other way—it involves tradeoffs just like any other structure.
- The best structure helps the organization manage change by:
 - facilitating the gathering and processing of information.
 - enabling it to react quickly and intelligently to the need for changes.
 - being flexible and easy to change themselves.

An adaptive structure helps an organization thrive in an environment of continuous change.

- Start by focusing on what should be, not on who should do it.
- What is most important is how the organization is structured “at the bottom” where work gets done.

Creating performance-based human resource development function.

There are two views of performance improvement.

- Vacuum view. Managers believe that the key to improving performance output is to arrange for proper training (input).
- Systems view. Managers believe that many variables affect performance (e.g., clear organizational goals, well-designed and defined processes, clear job goals, properly aligned incentive and measurement systems). Training only address one of the many variables that affect performance.

Overcoming the Seven Deadly Sins of Process Improvement

- **Process improvement is not tied to the strategic issues.**
Process improvement efforts that are not driven by critical or measurable strategic issues lose the support of top management and of the worker-level teams, and the full potential return on investment will never be realized.
- **The process improvement effort does not involve the right people, especially top management, in the right way.** The most frequent cause of ineffective process improvement is top management's failure to play an active role. Top management's role is to provide a strategy that guides the overall process improvement effort, set the direction for each project, guide the team, remove obstacles, approve reasonable recommendations, and manage implementation of the changes.
- **Process improvement teams are not given a clear, appropriate charter and are not held accountable for fulfilling that charter.** If teams do not have a clear sense of direction and boundaries they will flounder. Top management should ensure that the team knows:
 - Why are they here and what constitutes success.
 - What are the roles of and benefits to each of the members.
 - What are the deliverables and deadlines
 - What are the boundaries, constraints, and off-limits.
- **Top management thinks significant improvements require reorganizations or radical change.** Reorganizations rarely improve performance. Radical change is not necessarily healthier than incremental change. The critical business issues should determine how revolutionary the change should be.
- **Process designers don't sufficiently consider how the changes will affect the people who have to work in the new process.** A new process needs to be "sanity-checked" against the abilities of the people who will be affected. Those managing and operating in the process need to understand how their jobs, measures and goals are going to change.
- **The organization focuses more on redesign than on implementation.** Implementation requires equipping the organization to absorb the changes, appointing an implementation leader, establishing detailed action plans, defining roles and rewards for a group that often has six to ten times more people than were involved in the design process.
- **Teams fail to leave behind an infrastructure for continuous process improvement.** Organizations can focus on continuous improvement by moving from process improvement projects to process management. Process management must rest on a foundation of measures, and the establishment of senior level "owners" to monitor, report on and troubleshoot process performance.

Three Levels of Performance Assessment Questions

PERFORMANCE NEEDS

PERFORMANCE LEVELS	Goals	Design	Management
<i>Organization Level</i>	<p>Has the organization's strategy/direction been articulated and communicated?</p> <p>Does this strategy make sense, in terms of external threats and opportunities and internal strengths and weaknesses?</p> <p>Given this strategy, have the required outputs of the organization and the level of performance expected from each output been determined and communicated?</p>	<p>Are all relevant functions in place?</p> <p>Are all functions necessary?</p> <p>Is the current flow of inputs and outputs between functions appropriate?</p> <p>Does the formal organization structure support the strategy and enhance the efficiency of the system?</p>	<p>Have appropriate function goals been set?</p> <p>Is relevant performance measured?</p> <p>Are resources appropriately allocated?</p> <p>Are the interfaces between functions being managed?</p>
<i>Process Level</i>	<p>Are goals for key processes linked to customer and organization requirements?</p>	<p>Is this the most efficient and effective process for accomplishing the process goals?</p>	<p>Have appropriate process subgoals been set?</p> <p>Is process performance managed?</p> <p>Are sufficient resources allocated to each process?</p> <p>Are the interfaces between process steps being managed?</p>
<i>Job/Performer Level</i>	<p>Are job outputs and standards linked to process requirements (which are in turn linked to customer and organization requirements)?</p>	<p>Are process requirements reflected in the appropriate jobs?</p> <p>Are job steps in a logical sequence?</p> <p>Have supportive policies and procedures been developed?</p> <p>Is the job environment ergonomically sound?</p>	<p>Do the performers understand the job goals (outputs they are expected to produce and standards they must meet)?</p> <p>Do the performers have sufficient resources, clear signals and priorities, and a logical job design?</p> <p>Are the performers rewarded for achieving the job goals?</p> <p>Do the performers know if they are meeting job goals?</p> <p>Do the performers have the necessary knowledge/skills to achieve the job goals?</p> <p>Do the performers have the physical, mental and emotional capacity to achieve the job goals?</p>

Questions to Guide Strategy Development and Implementation

Core elements of strategy development and implementation include:

- What are we going to do, (i.e., deliver what products and services)?
- Whom will we do it for (i.e., customers and markets)
- Why will the customers buy from us (i.e., competitive advantage)?
- Where will we place our emphasis (i.e., product and market priorities)?

Development. *Laying the foundation for strategic decision making:*

- What values will guide our business?
- How far down the road are we going to look?
- What assumptions about external environment will underpin our strategy?

Products and Services:

- What new and existing products/services will we offer/not offer?
- What criteria will we use to evaluate new product/services opportunities?

Customers and Markets:

- What existing and new customer groups will we be serving/not serving?
- What criteria will we use to evaluate new market opportunities?

Competitive Advantage:

- What factors are meaningful to our customers?
- Which of these factors will represent our competitive advantage?

Product and Market Priorities:

- In which of current market or product areas will we place greatest emphasis?
- In what new market/product areas will we place greatest emphasis?

Implementation. Most strategies fail because of poor implementation.

What measures will we use to assess the viability of strategies?

How does implementation ensure goals, design and management at the organizational, process and performer levels support the strategy?

What are the goals for processes critical to our competitive advantage?

What are we doing to make sure that our strategically critical processes are working efficiently and effectively?

How are we ensuring ongoing management of critical processes?

What are the goals for the jobs that are most critical to process success?

How are we designing key jobs to best contribute to strategic success?

How are we creating an environment to support each job's strategic contribution (feedback, training, incentives)?